

**CITY OF MUSKEGON HEIGHTS, MICHIGAN**

**FINANCIAL STATEMENT**

***FOR THE YEAR ENDED DECEMBER 31, 2007***



*Vredeveld Haefner LLC*

# CITY OF MUSKEGON HEIGHTS

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### **INDEPENDENT AUDITORS' REPORT**

January 29, 2009

Honorable Mayor and Members of the City Council  
City of Muskegon Heights, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Muskegon Heights, Michigan, as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Muskegon Heights, Michigan. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information for the City of Muskegon Heights, Michigan as of December 31, 2007, and the respective changes in financial position and, where applicable, cash flows, thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by generally accepted accounting principals in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Muskegon Heights' basic financial statements. The combining and individual nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Vredeveld Haefner LLC*

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **Management's Discussion and Analysis**

As management of the City of Muskegon Heights (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

### **Financial Highlights**

The financial statements, which follow this Management's Discussion and Analysis, provide this significant key financial highlight for the 2007 fiscal year as follows:

- \$960,000 dollars in energy conservation bonds were issued and used to replace the heating and air conditioning systems and windows and City Hall and the library. The upgrades will show a positive cash flow with savings on energy costs

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) Government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements** The Government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected revenues and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works and streets, community development, and culture and recreation. The business-type activities of the City include sewer, water, and water supply operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate Downtown Development Authority (DDA) and the Brownfield Redevelopment Authority for which the City is financially accountable. The Brownfield Redevelopment Authority was formed in prior years and no financial activity or balances are reported for 2007. Information for these component units is reported separately from the financial information presented for the primary government itself.

**Fund financial statements** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund which is considered a major fund. Data is combined into a single aggregated presentation for the other governmental funds. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements and schedules.

The City adopts an annual appropriated budget for its General Fund and all special revenue funds as required by state law. A budgetary comparison statement has been provided for the major funds to demonstrate legal compliance.

**Proprietary funds** The City maintains one type of proprietary fund (Enterprise funds). Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its sewer, water, and water supply operations. The City does not use internal service funds.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer, water, and water supply operations, all of which are considered to be major funds of the City. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

**Fiduciary funds** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the financial statements** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. This is limited to this discussion and analysis and combining statements and schedules.

## Government-wide Financial Analysis

**Statement of Net Assets** As noted earlier, net assets may serve over time as a useful indicator of a City's financial position. In the case of the City, assets exceeded liabilities by \$15,082,516 at the close of the most recent fiscal year. The following chart illustrates the composition of net assets.

### City of Muskegon Heights Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2007	2006	2007	2006	2007	2006
<b>Assets</b>						
Current and other assets	\$3,112,561	\$3,007,313	\$5,906,452	\$6,140,205	\$9,019,013	\$9,147,518
Capital assets	8,763,852	8,996,392	20,865,269	21,684,847	29,629,121	30,681,239
<b>Total assets</b>	<b>11,876,413</b>	<b>12,003,705</b>	<b>26,771,721</b>	<b>27,825,052</b>	<b>38,648,134</b>	<b>39,845,903</b>
<b>Liabilities</b>						
Current liabilities	2,672,821	2,223,228	1,004,422	1,003,839	3,677,243	3,227,067
Long-term liabilities	2,884,203	2,191,574	17,004,172	17,573,997	19,888,375	19,765,571
<b>Total liabilities</b>	<b>5,557,024</b>	<b>4,414,802</b>	<b>18,008,594</b>	<b>18,577,836</b>	<b>23,565,618</b>	<b>22,992,638</b>
<b>Net assets</b>						
Invested in capital assets, net of related debt	7,185,349	8,243,703	5,018,511	5,357,846	12,203,860	13,601,549
Restricted	803,180	823,233	2,099,445	1,641,558	2,902,625	2,464,791
Unrestricted	(1,669,140)	(1,478,033)	1,645,171	2,247,812	(23,969)	769,779
<b>Total net assets</b>	<b>\$6,319,389</b>	<b>\$7,588,903</b>	<b>\$8,763,127</b>	<b>\$9,247,216</b>	<b>\$15,082,516</b>	<b>\$16,836,119</b>

By far the largest portion of the City's net assets in the amount of 81% reflects its investment in capital assets (e.g., land, buildings, machinery and equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets in the amount of 20% represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets in the amount of \$(23,969), or (1)%, may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for business-type activities. Governmental-type activities and the city as a whole reported negative unrestricted net assets at year end.

**Statement of Activities** The City's total revenue for the fiscal year ended December 31, 2007, was \$12,390,164. The total cost of all programs and services was \$14,143,767 of which \$2,150,912 represents depreciation expense. This results in a net asset decrease at the end of the fiscal year of \$1,753,603. The following table presents a summary of the changes in net assets for the year ended December 31. Certain revenues, expense, and transfers have been classified differently in 2007 than in 2006.

## City of Muskegon Heights Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2007	2006	2007	2006	2007	2006
<b>Revenues</b>						
Program revenues						
Charges for services	\$1,319,646	\$1,110,488	\$4,342,912	\$4,221,604	\$5,662,558	\$5,332,092
Operating grants and contributions	1,464,738	1,706,368	-	-	1,464,738	1,706,368
Capital grants and contributions	-	-	-	-	-	-
General revenues						
Property taxes	2,329,922	2,280,569	-	-	2,329,922	2,280,569
Income taxes	1,059,604	1,045,324	-	-	1,059,604	1,045,324
State shared revenues	1,736,585	1,782,345	-	-	1,736,585	1,782,345
Investment earnings	18,007	24,663	118,750	171,356	136,757	196,019
Other	-	-	-	-	-	-
<b>Total revenues</b>	<b>7,928,502</b>	<b>7,949,757</b>	<b>4,461,662</b>	<b>4,392,960</b>	<b>12,390,164</b>	<b>12,342,717</b>
<b>Expenses</b>						
General government	1,518,230	1,564,457	-	-	1,518,230	1,564,457
Public safety	4,005,702	3,885,033	-	-	4,005,702	3,885,033
Public works and streets	2,910,539	2,605,040	-	-	2,910,539	2,605,040
Culture and recreation	299,427	337,703	-	-	299,427	337,703
Community Development	635,218	631,549	-	-	635,218	631,549
Interest on long-term debt	98,383	98,028	-	-	98,383	98,028
Sewer	-	-	757,635	873,269	757,635	873,269
Water	-	-	1,348,925	1,049,003	1,348,925	1,049,003
Water Supply	-	-	2,236,352	2,982,152	2,236,352	2,982,152
<b>Total expenses</b>	<b>9,467,499</b>	<b>9,121,810</b>	<b>4,676,268</b>	<b>4,904,424</b>	<b>14,143,767</b>	<b>14,026,234</b>
<b>Increase (decrease) before transfers</b>	<b>(1,538,997)</b>	<b>(1,172,053)</b>	<b>(214,606)</b>	<b>(511,464)</b>	<b>(1,753,603)</b>	<b>(1,683,517)</b>
<b>Transfers in (out)</b>	<b>269,483</b>	<b>276,304</b>	<b>(269,483)</b>	<b>(276,304)</b>	<b>-</b>	<b>-</b>
<b>Increase (decrease) in net assets</b>	<b>(1,269,514)</b>	<b>(895,749)</b>	<b>(484,089)</b>	<b>(787,768)</b>	<b>(1,753,603)</b>	<b>(1,683,517)</b>
<b>Net assets – beginning</b>	<b>7,588,903</b>	<b>8,484,652</b>	<b>9,247,216</b>	<b>10,034,984</b>	<b>16,836,119</b>	<b>18,519,636</b>
<b>Net assets – ending</b>	<b>\$6,319,389</b>	<b>\$7,588,903</b>	<b>\$8,763,127</b>	<b>\$9,247,216</b>	<b>\$15,082,516</b>	<b>\$16,836,119</b>

**Governmental Activities** The preceding table shows that the governmental activities decreased the City's net assets by \$1,269,514 during this fiscal year, accounting for approximately 72% of the total decrease in net assets. This decrease is primarily the result of depreciation on capital assets.

**Business-type Activities** Business-type activities decreased the City's net assets by \$484,089, or approximately 28% of the total decline in the City's net assets.



## Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds** The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$690,782 a decrease of \$161,107 in comparison with the prior year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the entire fund balance of the general fund of \$9,392 was unreserved and undesignated. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents less than 1% of total General Fund expenditures.

The fund balance of the general fund decreased by \$78,846, or 89%, during the current fiscal year. The change in fund balance is highly dependent on the level of transfers made to and received from other funds.

**Proprietary funds** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The City of Muskegon Heights's enterprise operations consist of three separate and distinct activities. The sewer, water and water supply funds provide service to most residents and businesses of the City. The sewer and water supply funds experienced declines in net assets of \$230,310 and \$497,869 respectively while the water fund increased net assets by \$244,090.

## General Fund Budgetary Highlights

Differences between the general fund original and final amended budgets were primarily the result of the revenue and expenditures related to the energy conservation bonds and building improvements, as well as increased utility costs at the city owned Mona View Cemetery.

## Capital Asset and Debt Administration

**Capital Assets** The City's investment in capital assets for its governmental and business-type activities as of December 31, 2007, amounted to \$29,629,121 (net of accumulated depreciation). Of this amount, \$8,763,852 was for its governmental type activities and \$20,865,279 was for its business-type activities. This investment in capital assets includes land, buildings and equipment, vehicles and infrastructure.

Major capital asset events during the current fiscal year included the following:

- City Hall Project approximately \$857,000.
- Getty Street Improvement of approximately \$80,000.

Additional information on the City's capital assets can be found in Note 7 of this report.

**Long-term debt.** At the end of the current fiscal year, the City had total long-term debt including compensated absences outstanding of \$20,996,599. Of this amount, \$3,392,484 was for governmental activities while \$17,604,115 was for business type activities.

The City's total long-term debt increased by \$263,225 during the current fiscal year.

The City debt limit, as defined by statute, is ten percent (10%) of state equalized property values, which currently equals \$16,076,249. Total City's long-term debt subject to this limit is \$3,103,649.

Additional information on the City's long-term debt can be found on Note 9 of this report.

### **Economic Factors and Next Year's Budgets and Rates**

The following economic factors were considered in preparing the City's budget for the 2008 fiscal year:

- Flat performance of the State of Michigan's economy will likely result in stagnant or additional decreases in state funding.
- Wage increases as identified in employment agreements.
- The City's unemployment rate is higher than the state's average unemployment rate due in part to the struggling manufacturing base in the State of Michigan.
- The City is exploring ways to contain health care and pension costs.

### **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Finance Director, City of Muskegon Heights, 2724 Peck Street, Muskegon Heights, MI 49444.

## **BASIC FINANCIAL STATEMENTS**

# CITY OF MUSKEGON HEIGHTS

## STATEMENT OF NET ASSETS

**DECEMBER 31, 2007**

	Primary Government			Component Unit
	Governmental	Business-Type		Downtown
	Activities	Activities	Total	Development
				Authority
<b>Assets</b>				
Cash and pooled investments	\$ 879,075	\$ 3,774,175	\$ 4,653,250	\$ 325,206
Receivables				
Accounts	288,069	606,144	894,213	-
Property taxes	598,391	-	598,391	85,716
Income taxes	260,443	-	260,443	-
Special assessment receivable	170,652	-	170,652	-
Due from other governments	607,413	-	607,413	12,985
Inventory	100,788	37,952	138,740	-
Prepaid items	70,127	-	70,127	-
Internal balances	103,977	(223,632)	(119,655)	-
Capital assets				
Land	254,408	40,012	294,420	294,635
Depreciable capital assets, net	8,509,444	20,825,269	29,334,713	560,938
Bond issuance costs	33,626	1,711,801	1,745,427	-
<b>Total assets</b>	<b>11,876,413</b>	<b>26,771,721</b>	<b>38,648,134</b>	<b>1,279,480</b>
<b>Liabilities</b>				
Accounts payable	749,642	244,744	994,386	61,758
Accrued liabilities	107,324	159,735	267,059	7,876
Due to other governments	16,499	-	16,499	7,128
Unearned revenue	1,291,075	-	1,291,075	174,494
Noncurrent liabilities				
Due within one year	508,281	599,943	1,108,224	111,413
Due in more than one year	2,884,203	17,004,172	19,888,375	515,129
<b>Total liabilities</b>	<b>5,557,024</b>	<b>18,008,594</b>	<b>23,565,618</b>	<b>877,798</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	7,185,349	5,018,511	12,203,860	229,031
Restricted for				
Capital improvements	21,576	-	21,576	-
Debt service	4,346	2,099,445	2,103,791	-
Major streets	247,699	-	247,699	-
Local streets	4,885	-	4,885	-
Cemetery perpetual care	524,674	-	524,674	-
Unrestricted (deficit)	(1,669,140)	1,645,171	(23,969)	172,651
<b>Total net assets</b>	<b>\$ 6,319,389</b>	<b>\$ 8,763,127</b>	<b>\$ 15,082,516</b>	<b>\$ 401,682</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF MUSKEGON HEIGHTS

## STATEMENT OF ACTIVITIES

**FOR THE YEAR ENDED DECEMBER 31, 2007**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
			<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
<b>Primary government</b>					
Governmental activities					
General government	\$ 1,518,230	\$ 800,293	\$ 38,163	\$ -	\$ (679,774)
Public safety	4,005,702	381,460	118,681	-	(3,505,561)
Public works and streets	2,910,539	48,197	831,524	-	(2,030,818)
Culture and recreation	299,427	60,718	-	-	(238,709)
Community development	635,218	28,978	476,370	-	(129,870)
Interest on long-term debt	98,383	-	-	-	(98,383)
<b>Total governmental activities</b>	<u>9,467,499</u>	<u>1,319,646</u>	<u>1,464,738</u>	<u>-</u>	<u>(6,683,115)</u>
Business-type activities					
Sewer	913,313	757,635	-	-	(155,678)
Water	1,026,175	1,348,925	-	-	322,750
Water supply	2,736,780	2,236,352	-	-	(500,428)
<b>Total business-type activities</b>	<u>4,676,268</u>	<u>4,342,912</u>	<u>-</u>	<u>-</u>	<u>(333,356)</u>
<b>Total primary government</b>	<u>\$ 14,143,767</u>	<u>\$ 5,662,558</u>	<u>\$ 1,464,738</u>	<u>\$ -</u>	<u>\$ (7,016,471)</u>
<b>Component units</b>					
Downtown Development Authority	\$ 332,279	\$ 59,634	\$ -	\$ -	\$ (272,645)
<b>Total component units</b>	<u>\$ 332,279</u>	<u>\$ 59,634</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (272,645)</u>

(Continued)

The accompanying notes are an integral part of these financial statements.

**CITY OF MUSKEGON HEIGHTS**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

	Primary Government			Component Unit
	Governmental	Business-type		Downtown
	<u>Activities</u>	<u>Activities</u>	<u>Total</u>	<u>Development</u>
				<u>Authority</u>
<b>Changes in net assets</b>				
<b>Net (expense) revenue</b>	\$ (6,683,115)	\$ (333,356)	\$ (7,016,471)	\$ (272,645)
General revenues				
Property taxes	2,329,922	-	2,329,922	355,820
Income taxes	1,059,604	-	1,059,604	-
State shared revenues - unrestricted	1,736,585	-	1,736,585	-
Interest earnings	18,007	118,750	136,757	8,749
Transfers - internal activities	<u>269,483</u>	<u>(269,483)</u>	<u>-</u>	<u>-</u>
<b>Total general revenues and transfers</b>	<u>5,413,601</u>	<u>(150,733)</u>	<u>5,262,868</u>	<u>364,569</u>
Change in net assets	(1,269,514)	(484,089)	(1,753,603)	91,924
<b>Net assets, beginning of year</b>	<u>7,588,903</u>	<u>9,247,216</u>	<u>16,836,119</u>	<u>309,758</u>
<b>Net assets, end of year</b>	<u>\$ 6,319,389</u>	<u>\$ 8,763,127</u>	<u>\$ 15,082,516</u>	<u>\$ 401,682</u>

(Concluded)

The accompanying notes are an integral part of these financial statements.

# CITY OF MUSKEGON HEIGHTS

## GOVERNMENTAL FUNDS COMBINING BALANCE SHEET

DECEMBER 31, 2007

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<b>Assets</b>			
Cash and pooled investments	\$ 84,880	\$ 794,195	\$ 879,075
Receivables			
Accounts	254,530	33,539	288,069
Property taxes	598,391	-	598,391
Income taxes	260,443	-	260,443
Special assessment	-	170,652	170,652
Due from other funds	554,915	369,079	923,994
Due from other governments	398,653	208,760	607,413
Inventory	35,788	-	35,788
Prepaid items	70,127	-	70,127
<b>Total assets</b>	<u>\$ 2,257,727</u>	<u>\$ 1,576,225</u>	<u>\$ 3,833,952</u>
<b>Liabilities and fund balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 580,085	\$ 169,557	\$ 749,642
Accrued liabilities	74,271	21,014	95,285
Due to other funds	307,422	512,595	820,017
Due to other governments	16,499	-	16,499
Deferred revenue	1,270,058	191,669	1,461,727
<b>Total liabilities</b>	<u>2,248,335</u>	<u>894,835</u>	<u>3,143,170</u>
<b>Fund balances</b>			
Unreserved			
Undesignated	9,392	-	9,392
Undesignated reported in nonmajor			
Special revenue funds	-	655,468	655,468
Capital projects funds	-	21,576	21,576
Debt service fund	-	4,346	4,346
<b>Total fund balances</b>	<u>9,392</u>	<u>681,390</u>	<u>690,782</u>
<b>Total liabilities and fund balances</b>	<u>\$ 2,257,727</u>	<u>\$ 1,576,225</u>	<u>\$ 3,833,952</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF MUSKEGON HEIGHTS

## RECONCILIATION OF FUND BALANCE ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS

DECEMBER 31, 2007

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<b>Fund balances - total governmental funds</b>	<b>\$ 690,782</b>
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Amounts reported for *governmental activities* in the statement of net assets are different because

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.

Add - land	254,408
Add - capital assets (net of accumulated depreciation)	8,509,444

Certain assets do not represent current expendable financial resources and therefore are not recognized in the funds.

Add - Houses held in inventory	65,000
Add - Bond issuance costs	33,626

Certain assets are not due and receivable in the current period and therefore are offset with deferred revenue in the funds.

Add - deferred revenue	170,652
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Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.

Deduct - compensated absences payable	(402,406)
Deduct - bonds payable	(2,990,078)
Deduct - accrued interest on bonds payable	<u>(12,039)</u>

<b>Net assets of governmental activities</b>	<b><u>\$ 6,319,389</u></b>
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The accompanying notes are an integral part of these financial statements.



**CITY OF MUSKEGON HEIGHTS**

**GOVERNMENTAL FUNDS**

**STATEMENT OF REVENUES, EXPENDITURES**

**AND CHANGES IN FUND BALANCES**

**FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<b>Revenues</b>			
Taxes			
Property	\$ 2,329,922	\$ -	\$ 2,329,922
Income	1,059,604	-	1,059,604
Intergovernmental revenues			
Federal	33,659	465,851	499,510
State	1,821,607	880,206	2,701,813
Licenses and permits	111,335	-	111,335
Charges for services	673,519	176,703	850,222
Fines	52,080	-	52,080
Interest earnings	17,042	11,359	28,401
Miscellaneous	270,370	76,259	346,629
<b>Total revenues</b>	<u>6,369,138</u>	<u>1,610,378</u>	<u>7,979,516</u>
<b>Expenditures</b>			
Current			
General government	2,902,913	227,721	3,130,634
Public safety	3,595,317	-	3,595,317
Public works and streets	756,708	853,152	1,609,860
Community development	10,426	582,668	593,094
Culture and recreation	124,974	119,665	244,639
Debt service			
Principal	64,230	219,918	284,148
Interest	7,762	85,547	93,309
<b>Total expenditures</b>	<u>7,462,330</u>	<u>2,088,671</u>	<u>9,551,001</u>
Revenues over (under) expenditures	<u>(1,093,192)</u>	<u>(478,293)</u>	<u>(1,571,485)</u>
Other financing sources (uses)			
Issuance of debt	1,020,196	120,699	1,140,895
Transfers in	268,163	360,592	628,755
Transfers out	(274,013)	(85,259)	(359,272)
<b>Total other financing sources (uses)</b>	<u>1,014,346</u>	<u>396,032</u>	<u>1,410,378</u>
Net changes in fund balances	(78,846)	(82,261)	(161,107)
<b>Fund balances, beginning of year</b>	<u>88,238</u>	<u>763,651</u>	<u>851,889</u>
<b>Fund balances, end of year</b>	<u>\$ 9,392</u>	<u>\$ 681,390</u>	<u>\$ 690,782</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF MUSKEGON HEIGHTS

## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2007

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Net changes in fund balances - total governmental funds	\$ (161,107)
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Amounts reported for *governmental activities* in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	1,018,220
Deduct - depreciation expense	(1,249,347)
Deduct - net book value of disposed of capital assets	(1,413)

Certain accounts receivable are long-term in nature and are collectable over several years. However the current portions are reflected as revenues on the fund statements.

Deduct - current portion of long-term receivables	(51,014)
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Long-term debt proceeds provide current financial resources to governmental funds in the period issued, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Deduct - issuance of long-term debt	(1,140,895)
Add - payments on long-term debt	284,148

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - decrease in compensated absences	47,949
Deduct - other changes	(10,981)
Deduct - amortization of bond issuance costs	(6,035)
Add - changes in accrued interest	961

Change in net assets of governmental activities	<u>\$ (1,269,514)</u>
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The accompanying notes are an integral part of these financial statements.



# CITY OF MUSKEGON HEIGHTS

## GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

**FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Positive</u> <u>(Negative)</u>
<b>Revenues</b>				
Taxes				
Property	\$ 2,235,000	\$ 2,435,000	\$ 2,329,922	\$ (105,078)
Income	980,000	2,190,348	1,059,604	(1,130,744)
Intergovernmental revenues				
Federal	69,453	48,500	33,659	(14,841)
State	1,885,022	1,885,022	1,821,607	(63,415)
Licenses and permits	99,300	99,300	111,335	12,035
Charges for services	508,500	523,936	673,519	149,583
Fines	45,000	45,000	52,080	7,080
Interest earnings	9,000	9,000	17,042	8,042
Miscellaneous	197,250	176,261	270,370	94,109
<b>Total revenues</b>	<u>6,028,525</u>	<u>7,412,367</u>	<u>6,369,138</u>	<u>(1,043,229)</u>
<b>Expenditures</b>				
Current				
General government	1,895,515	3,008,028	2,902,913	105,115
Public safety	3,356,436	3,692,588	3,595,317	97,271
Public works	727,500	741,773	756,708	(14,935)
Community development	23,953	10,800	10,426	374
Culture and recreation	154,581	151,690	124,974	26,716
Debt service				
Principal	73,488	64,800	64,230	570
Interest	2,380	2,380	7,762	(5,382)
<b>Total expenditures</b>	<u>6,233,853</u>	<u>7,672,059</u>	<u>7,462,330</u>	<u>209,729</u>
<b>Revenues over (under) expenditures</b>	<u>(205,328)</u>	<u>(259,692)</u>	<u>(1,093,192)</u>	<u>(1,252,958)</u>
Other financing sources (uses)				
Issuance of debt	-	-	1,020,196	1,020,196
Transfers in	290,200	290,200	268,163	(22,037)
Transfers out	(83,000)	-	(274,013)	(274,013)
<b>Total other financing sources (uses)</b>	<u>207,200</u>	<u>290,200</u>	<u>1,014,346</u>	<u>724,146</u>
<b>Net changes in fund balance</b>	<u>1,872</u>	<u>30,508</u>	<u>(78,846)</u>	<u>(109,354)</u>
<b>Fund balance, beginning of year</b>	<u>88,238</u>	<u>88,238</u>	<u>88,238</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 90,110</u>	<u>\$ 118,746</u>	<u>\$ 9,392</u>	<u>\$ (109,354)</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF MUSKEGON HEIGHTS

## PROPRIETARY FUNDS STATEMENT OF NET ASSETS

DECEMBER 31, 2007

Assets	Enterprise Funds			
	Sewer	Water	Water Supply	Total
Current assets				
Cash and pooled investments	\$ 416,460	\$ 196,400	\$ 1,061,870	\$ 1,674,730
Accounts receivable	206,812	327,691	71,641	606,144
Due from other funds	12,167	16,264	-	28,431
Inventory	-	26,770	11,182	37,952
Total current assets	<u>635,439</u>	<u>567,125</u>	<u>1,144,693</u>	<u>2,347,257</u>
Noncurrent assets				
Capital assets				
Land	2,246	-	37,766	40,012
Plant and equipment	3,679,810	2,147,165	25,896,394	31,723,369
Less accumulated depreciation	(2,101,174)	(1,722,740)	(7,074,186)	(10,898,100)
Net capital assets	<u>1,580,882</u>	<u>424,425</u>	<u>18,859,974</u>	<u>20,865,281</u>
Restricted cash and pooled investments	-	-	2,099,445	2,099,445
Bond issuance costs and discount	-	-	1,711,801	1,711,801
Total noncurrent assets	<u>1,580,882</u>	<u>424,425</u>	<u>22,671,220</u>	<u>24,676,527</u>
<b>Total assets</b>	<u>2,216,321</u>	<u>991,550</u>	<u>23,815,913</u>	<u>27,023,784</u>
Liabilities				
Current liabilities				
Accounts payable	140,904	40,138	63,702	244,744
Accrued liabilities	4,932	20,781	134,022	159,735
Due to other funds	13,054	24,912	214,097	252,063
Current portion of long-term debt	<u>118,948</u>	<u>7,322</u>	<u>473,673</u>	<u>599,943</u>
Total current liabilities	<u>277,838</u>	<u>93,153</u>	<u>885,494</u>	<u>1,256,485</u>
Long-term liabilities				
Long-term debt, net of current portion	<u>1,281</u>	<u>1,825</u>	<u>17,001,066</u>	<u>17,004,172</u>
Total long-term liabilities	<u>1,281</u>	<u>1,825</u>	<u>17,001,066</u>	<u>17,004,172</u>
<b>Total liabilities</b>	<u>279,119</u>	<u>94,978</u>	<u>17,886,560</u>	<u>18,260,657</u>
Net assets				
Investment in capital assets net of related debt	1,467,311	424,425	3,126,775	5,018,511
Restricted for debt service	-	-	2,099,445	2,099,445
Unrestricted	<u>469,891</u>	<u>472,147</u>	<u>703,133</u>	<u>1,645,171</u>
<b>Total net assets</b>	<u>\$ 1,937,202</u>	<u>\$ 896,572</u>	<u>\$ 5,929,353</u>	<u>\$ 8,763,127</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF MUSKEGON HEIGHTS

## PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

**FOR THE YEAR ENDED DECEMBER 31, 2007**

	Enterprise Funds			
	<u>Sewer</u>	<u>Water</u>	<u>Water Supply</u>	<u>Total</u>
<b>Operating revenue</b>				
Charges for services	\$ 724,117	\$ 1,295,455	\$ 1,049,813	\$ 3,069,385
Fines	32,979	43,687	-	76,666
Charges for debt service	498	12,454	1,186,539	1,199,491
<b>Total operating revenue</b>	<u>757,594</u>	<u>1,351,596</u>	<u>2,236,352</u>	<u>4,345,542</u>
<b>Operating expense</b>				
Personnel services	107,460	177,939	308,450	593,849
Benefits	57,290	92,480	172,241	322,011
Contractual/professional services	621,515	614,922	125,055	1,361,492
Materials and supplies	6,562	38,841	146,380	191,783
Utilities	943	40,592	312,923	354,458
Repair and maintenance	7,734	3,220	37,607	48,561
Depreciation	76,837	33,703	791,025	901,565
Miscellaneous	26,427	27,108	9,424	62,959
<b>Total operating expense</b>	<u>904,768</u>	<u>1,028,805</u>	<u>1,903,105</u>	<u>3,836,678</u>
Operating income (loss)	<u>(147,174)</u>	<u>322,791</u>	<u>333,247</u>	<u>508,864</u>
<b>Non-operating revenue (expense)</b>				
Interest income	5,409	1,299	112,042	118,750
Interest expense	(8,545)	-	(833,675)	(842,220)
<b>Total non-operating revenue (expense)</b>	<u>(3,136)</u>	<u>1,299</u>	<u>(721,633)</u>	<u>(723,470)</u>
Income (loss) before transfers	(150,310)	324,090	(388,386)	(214,606)
<b>Transfers</b>				
Transfers out	(80,000)	(80,000)	(109,483)	(269,483)
Changes in net assets	(230,310)	244,090	(497,869)	(484,089)
<b>Net assets, beginning of year</b>	<u>2,167,512</u>	<u>652,482</u>	<u>6,427,222</u>	<u>9,247,216</u>
<b>Net assets, end of year</b>	<u>\$ 1,937,202</u>	<u>\$ 896,572</u>	<u>\$ 5,929,353</u>	<u>\$ 8,763,127</u>

The accompanying notes are an integral part of these financial statements.



# CITY OF MUSKEGON HEIGHTS

## PROPRIETARY FUNDS STATEMENT OF CASH FLOWS

**FOR THE YEAR ENDED DECEMBER 31, 2007**

	Enterprise Funds			
	Sewer	Water	Water Supply	Total
<b>Cash flows from operating activities</b>				
Receipts from customers and users	\$ 771,193	\$ 1,335,781	\$ 2,255,552	\$ 4,362,526
Payments to employees	(163,759)	(269,162)	(484,648)	(917,569)
Payments to suppliers	(489,413)	(997,835)	(499,208)	(1,986,456)
<b>Net cash provided by (used in) operating activities</b>	<u>118,021</u>	<u>68,784</u>	<u>1,271,696</u>	<u>1,458,501</u>
<b>Cash flows from non-capital financing activities</b>				
Transfers in	-	-	-	-
Transfers out	(80,000)	(80,000)	(109,483)	(269,483)
<b>Net cash provided by (used in) non-capital financing activities</b>	<u>(80,000)</u>	<u>(80,000)</u>	<u>(109,483)</u>	<u>(269,483)</u>
<b>Cash flows from capital and related financing activities</b>				
Interest paid	(8,545)	-	(759,248)	(767,793)
Principal paid on long-term debt	(114,657)	-	(440,000)	(554,657)
Acquisitions of capital assets	(82,000)	-	-	(82,000)
<b>Net cash provided by (used in) capital and related financing activities</b>	<u>(205,202)</u>	<u>-</u>	<u>(1,199,248)</u>	<u>(1,404,450)</u>
<b>Cash flows from investing activities</b>				
Interest income	5,409	1,299	112,042	118,750
<b>Net cash provided by (used in) investing activities</b>	<u>5,409</u>	<u>1,299</u>	<u>112,042</u>	<u>118,750</u>
<b>Net increase (decrease) in cash and pooled investments</b>	<u>(161,772)</u>	<u>(9,917)</u>	<u>75,007</u>	<u>(96,682)</u>
<b>Cash and pooled investments, beginning of year</b>	<u>578,232</u>	<u>206,317</u>	<u>3,086,308</u>	<u>3,870,857</u>
<b>Cash and pooled investments, end of year</b>	<u>\$ 416,460</u>	<u>\$ 196,400</u>	<u>\$ 3,161,315</u>	<u>\$ 3,774,175</u>
<b>Cash flows from operating activities</b>				
Operating income (loss)	\$ (147,174)	\$ 322,791	\$ 333,247	\$ 508,864
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	76,837	33,703	791,025	901,565
Allowance for doubtful accounts	10,000	9,825	-	19,825
Change in operating assets and liabilities which provided (used) cash				
Accounts receivable	3,599	(25,640)	19,200	(2,841)
Due from other funds	150,191	(16,264)	-	133,927
Inventory	-	(6,740)	-	(6,740)
Accounts payable	10,523	3,106	(26,505)	(12,876)
Accrued liabilities	246	990	(1,048)	188
Accrued compensated absences	745	267	(2,909)	(1,897)
Due to other funds	13,054	(253,254)	158,686	(81,514)
<b>Net cash provided by (used in) operating activities</b>	<u>\$ 118,021</u>	<u>\$ 68,784</u>	<u>\$ 1,271,696</u>	<u>\$ 1,458,501</u>

The accompanying notes are an integral part of these financial statements.



# CITY OF MUSKEGON HEIGHTS

## FIDUCIARY FUNDS STATEMENT OF NET ASSETS

DECEMBER 31, 2007

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	Private Purpose Trust Fund - John Hendrick Flower Fund	Agency Funds
<b>Assets</b>		
Cash and pooled investments	\$ 3,077	\$ 491,405
Due from other funds	-	323,089
Due from other governments	-	2,173
	<hr/>	<hr/>
<b>Total assets</b>	<b>\$ 3,077</b>	<b>\$ 816,667</b>
<b>Liabilities</b>		
Accounts payable	\$ -	\$ 178,884
Due to other funds	-	203,434
Due to other governments	-	434,349
	<hr/>	<hr/>
<b>Total liabilities</b>	<b>-</b>	<b>\$ 816,667</b>
<b>Net assets</b>	<b>\$ 3,077</b>	

The accompanying notes are an integral part of these financial statements.

# CITY OF MUSKEGON HEIGHTS

## *PRIVATE PURPOSE TRUST FUND STATEMENT OF CHANGES IN NET ASSETS*

*FOR THE YEAR ENDED DECEMBER 31, 2007*

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	Private Purpose Trust Fund - John Hendrick <u>Flower Fund</u>
<b>Additions</b>	
Interest earnings	\$ -
<b>Deductions</b>	
Fees	<u>48</u>
Changes in net assets	(48)
<b>Net assets, beginning of year</b>	<u>3,125</u>
<b>Net assets, end of year</b>	<u>\$ 3,077</u>

The accompanying notes are an integral part of these financial statements.



# CITY OF MUSKEGON HEIGHTS

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2007

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Muskegon Heights, Michigan (the "City") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

#### ***Reporting Entity***

These financial statements present the City and its component units, entities with which the City is considered to be financially accountable. Discretely presented component units are reported in a separate column in the financial statements to emphasize they are legally separate from the City. A separate section of the basic financial statements provides detailed financial information on the discretely presented component units. The City has no blended component units.

#### ***Discretely Presented Component Units***

The component unit column in the basic financial statements includes the financial data of the Downtown Development Authority (DDA). This entity is reported in a separate column and rows to emphasize that it is legally separate from the City. The City also has one additional component unit which had no financial assets or financial activity during the year (the Brownfield Redevelopment Authority). The DDA was formed to complete various projects in the downtown district. Funding for these projects will be provided through captured property taxes from various units of government. The members of the governing boards of the DDA are appointed by the City Council. The budgets of these Authorities must be approved by the City Council, and the City has the ability to significantly influence their operations. Financial statements are not separately issued for the component DDA.

#### ***Government-wide and Fund Financial Statements***

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between enterprise functions and other various functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

# CITY OF MUSKEGON HEIGHTS

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED DECEMBER 31, 2007

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Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

#### ***Measurement Focus, Basis of Accounting and Financial Statement Presentation***

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. Reimbursement-based grants, income taxes, fees, interest and other revenues use a one year collection period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, income taxes, grants, state revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges for services. The principal operating revenues of the City's internal service funds are charges to City departments for shared costs, equipment utilization, and insurance coverage. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The City reports the following major governmental funds:

The *General Fund* is the general operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The *Sewer Enterprise Fund* is used to account for the operations of the City's sewer department that provides sewer services to most residents of the City on a user charge basis.

# CITY OF MUSKEGON HEIGHTS

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED DECEMBER 31, 2007

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The *Water Enterprise Fund* is used to account for the operations of the City's water department that provides water services to most residents of the City on a user charge basis.

The *Water Supply Enterprise Fund* is used to account for operations of the City water treatment plant and related assets utilized to treat and distribute water to the City and surrounding communities on a user charge basis.

Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for the proceeds of specific revenue sources (other than permanent trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

The *Debt Service Fund* is used to account for the accumulation of resources for, and payment of, long-term debt principal, interest, and related costs of governmental funds.

The *Capital Projects Fund* accounts for the accumulation and disbursement of resources for the construction of City capital projects.

The *Private Purpose Trust Fund* is used to account for resources that are restricted for the benefit of other governments or other organizations.

The *Agency Fund* is used to account for the collection and disbursement of property taxes that are collected on behalf of outside governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed by both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resource as they are needed.

#### ***Budgets and Budgetary Accounting***

Comparisons to budget are presented for the General Fund. Special Revenue Funds adopt a legal budget with remaining funds maintaining budgets as a management control device. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to November 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget is adopted by activity.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to January 1, the budget is legally enacted through passage of a resolution.

# **CITY OF MUSKEGON HEIGHTS**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED DECEMBER 31, 2007**

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4. Formal budgetary integration is employed for the governmental fund types as a management control device.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Annual budgets lapse at fiscal year end.
6. Adoption and amendments of all budgets used by the City are governed by Michigan state law. The appropriations resolution is based on the projected expenditures budget of the department heads of the City. Any amendment to the original budget must meet the requirements of Michigan law. Any revisions that alter the total expenditures of any department must be approved by the City Council. The City Manager is authorized to transfer budgeted amounts within a department subject to the condition that the total expenditures do not exceed the approved appropriations by department. Thus the legal level of budgetary control is at the department level. Supplemental appropriations were necessary during the year.

#### ***Cash and Pooled Investments***

For the purpose of the statement of cash flows, the City considers cash and pooled investments to be cash and cash equivalents because the pooling of these balances allows for withdrawal of these balances at any time similar to a demand deposit account.

#### ***Investments***

Investments are stated at fair value at the balance sheet date.

State statutes authorize the City to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended.

# **CITY OF MUSKEGON HEIGHTS**

## **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2007**

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### ***Receivables***

All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

### ***Due to and Due from Other Funds***

Interfund receivables and payables are short-term borrowings that arise from interfund transactions which are recorded by all funds affected in the period in which transactions are executed.

### ***Capital Assets***

Capital assets, which include land, construction in progress, buildings and equipment, vehicles, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type activities columns in the government-wide financial statements.

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Depreciation on capital assets (including infrastructure) is computed using the straight-line method over the following estimated useful lives:

	<u><b>Years</b></u>
Buildings and improvements	7-50
Equipment	5-40
Motor vehicles	5-25
Infrastructure	5-100



# CITY OF MUSKEGON HEIGHTS

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2007

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### **Deferred Revenue**

Funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* reported in the fund statements were as follows:

General Fund	
Property taxes (Levied for 2008)	\$1,207,450
Unavailable receivables	62,608
Nonmajor Funds	
Special assessments	170,652
Unexpended program revenue	<u>21,107</u>
Total governmental funds	1,461,727
Component Unit	
Downtown Development Authority	
Property taxes (Captured for 2008)	<u>174,494</u>
	<u>\$1,636,221</u>

### **Long-Term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

### **Compensated Absences**

Under contracts negotiated with employee groups, individual employees have a vested right to receive payments for unused vacation benefits under formulas and conditions specified in the contracts. Accumulated vacation time of governmental funds is recorded on the statement of net assets and not on the governmental fund balance sheets because it is not expected to be liquidated with expendable available financial resources. Amounts accumulated for proprietary funds are reported on the statements of net assets of the individual enterprise funds.

# **CITY OF MUSKEGON HEIGHTS**

## **NOTES TO THE FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED DECEMBER 31, 2007**

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#### ***Property Taxes***

City property taxes are attached as an enforceable lien on property as of July 1. Taxes are levied July 1 and are due without penalty on or before August 15. These summer tax bills include the City's own property taxes and taxes billed on behalf of other taxing units within the City limits. Real property taxes not collected as of March 1 are turned over to the County for collection, which advances the City 100% for the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer.

Property taxes levied in July of each year are recognized as revenue for one half of the levy in the current year and the balance in the following year.

#### ***Grants and Other Intergovernmental Revenues***

Grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenue when entitlement occurs. Reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditure/expenses are incurred.

#### ***Interfund Transactions***

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services and to service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers.

## **2. DEFICIT FUND BALANCE/NET ASSETS**

At December 31, 2007 the City had deficit fund balance in the Cemetery Special Revenue Fund and Recreation Special Revenue Fund of \$103,031 and \$42,308 respectively.

# CITY OF MUSKEGON HEIGHTS

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED DECEMBER 31, 2007

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#### 3. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

Michigan law, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgeted funds have been shown on a functional basis. The approved budgets of the City for these budgeted funds were adopted at the activity level.

During the year ended December 31, 2007, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Over Expended</u>
<b>General Fund</b>			
General government			
City Clerk	\$75,695	\$77,886	\$2,191
Motor Pool	68,000	70,653	2,653
Other general government	893,024	902,032	9,008
Public safety			
Auto theft grant	117,588	124,015	6,427
Special investigations	-	5,852	5,852
Public works and streets			
Public works	69,000	88,135	19,135
Street lighting	170,000	179,577	9,577
Traffic	2,773	3,010	237
Culture and recreation			
Boardwalk	-	4,650	4,650
Festival in the park	3,190	6,105	2,915
Mona Lake boat launch	-	748	748
Debt Service			
Interest and fiscal charges	2,380	7,762	5,382
<b>Local Streets</b>			
Public works and streets	248,356	336,457	88,101
<b>Recreation</b>			
Recreation	114,241	119,665	5,424

# CITY OF MUSKEGON HEIGHTS

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2007

### 4. CASH AND INVESTMENTS

The captions on the financial statements relating to cash and pooled investments and investments are as follows:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and pooled investments	\$4,653,250	\$325,206	\$494,482	\$5,472,938

Cash and pooled investments and investments captions consist of the following at December 31, 2007:

Deposits and certificates of deposit	\$ 576,487
Mutual funds and securities	<u>4,896,451</u>
Total	<u>\$5,472,938</u>

The deposits are in seven financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. They are recorded in City records at fair value. Interest is recorded when earned.

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require, and the City does not have, a policy for deposit custodial credit risk. As of year-end, \$258,343 of the City's bank balance of \$1,056,820 was exposed to custodial credit risk.

### Investments

The City chooses to disclose its investments by specifically identifying each. As of year-end, the City had the following deposits and investments:

	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Source</u>
FNMA	12/18/17	\$ 121,680	AAA	S&P
FHLMC	3/4/19	47,674	AAA	S&P
FNMA	3/1/25	6,900	Unrated	
GNMA	9/15/08	1,367	Unrated	
FHLMC	6/30/09	132,724	AAA	S&P
FHLB	5/22/13	400,624	AAA	S&P
FHLB	12/30/15	247,890	AAA	S&P
FHLB	3/4/19	20,728	AAA	S&P
Treasury Note	4/30/08	44,796	N/A	
Treasury Note	5/15/09	25,055	N/A	
Treasury Note	6/30/08	50,157	N/A	
Treasury Bills	1/4/08	59,993	N/A	
Mutual fund accounts				
Allegiant Government Money Market	N/A	98,652	Unrated	
Government Cash Investment Fund J	N/A	3,562,007	Unrated	
General Treasury Prime Class B	N/A	<u>76,204</u>	Unrated	
		<u>\$4,896,451</u>		

# CITY OF MUSKEGON HEIGHTS

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED DECEMBER 31, 2007

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The above investments do not include certificates of deposit which are classified as deposits for risk identification purposes.

#### ***Investment and deposit risk***

***Interest Rate Risk.*** State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1, the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity date for each investment is identified above for investments held at year-end.

***Credit Risk.*** State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in Note 1, the summary of significant accounting policies. The investment policy does not have specific limits in excess of state law on investment credit risk. The rating for each investment is identified above for investments held at year end.

***Custodial Credit Risk - Investments.*** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. Of the above \$1,159,588 of investments, the City has a custodial credit risk of \$1,159,588 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities. Of the above mutual fund investments the City's custodial credit risk exposure cannot be determined because the mutual funds do not consist of specifically identifiable securities.

***Concentration of Credit Risk.*** State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1, the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

# CITY OF MUSKEGON HEIGHTS

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2007

### 5. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables of individual funds at December 31, 2007 were as follows:

<u>Receivable fund</u>	<u>Payable fund</u>						<u>Total</u>
	<u>General</u>	<u>Sewer</u>	<u>Water</u>	<u>Water Supply</u>	<u>Fiduciary</u>	<u>Non-major governmental funds</u>	
General fund	\$ -	\$13,054	\$11,311	\$169,107	\$ 3,357	\$358,086	\$ 554,915
Sewer	-	-	12,167	-	-	-	12,167
Water	-	-	-	13,973	77	2,214	16,264
Fiduciary	169,062	-	1,434	22,301	-	130,292	323,089
Non-major governmental funds	138,360	-	-	8,716	200,000	22,003	369,079
<b>Total</b>	<b>\$307,422</b>	<b>\$13,054</b>	<b>\$24,912</b>	<b>\$214,097</b>	<b>\$203,434</b>	<b>\$512,595</b>	<b>\$1,275,514</b>

Interfund balances primarily reflect loans made from funds with cash and pooled investments to those funds requiring temporary cash flow.

### 6. INTERFUND TRANSACTIONS

Transfers in and out for the year ended December 31, 2007 are as follows:

<u>Transfer out</u>	<u>Transfer in</u>		<u>Total</u>
	<u>General Fund</u>	<u>Non-major governmental funds</u>	
General Fund	\$ -	\$274,013	\$274,013
Enterprise			
Sewer	80,000	-	80,000
Water	80,000	-	80,000
Water Supply	70,000	39,483	109,483
Non-major governmental funds	38,163	47,096	85,259
<b>Total</b>	<b>\$268,163</b>	<b>\$360,592</b>	<b>\$628,755</b>

Transfers to the general fund represent payments to fund administrative costs from benefiting funds while transfers to the water supply fund are to fund debt service costs associated with outstanding bonds. Transfers out of the general fund are used to fund debt service on outstanding bonds.

A transfer of \$116,897 was made from the Downtown Development Authority (DDA) general fund to the DDA debt service fund to assist with payment of long-term debt.

# CITY OF MUSKEGON HEIGHTS

## NOTES TO THE FINANCIAL STATEMENTS

**FOR THE YEAR ENDED DECEMBER 31, 2007**

### 7. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	<u>Balance January 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2007</u>
<b>Governmental Activities</b>				
<b>Capital assets, not being depreciated</b>				
Land	\$ 254,408	\$ -	\$ -	\$ 254,408
Construction in Progress	-	-	-	-
Total capital assets, not being depreciated	254,408	-	-	254,408
<b>Capital assets, being depreciated</b>				
Buildings and improvements	1,235,756	875,799	-	2,111,555
Equipment	1,352,818	-	14,752	1,338,066
Motor vehicles	2,202,418	59,507	145,347	2,116,578
Infrastructure	18,556,978	82,914	-	18,639,892
Total capital assets, being depreciated	23,347,970	1,018,220	160,099	24,206,091
Less accumulated depreciation for				
Buildings and improvements	594,501	76,895	-	671,396
Equipment	561,696	97,518	13,337	645,877
Motor vehicles	1,241,783	164,756	145,349	1,261,190
Infrastructure	12,208,006	910,178	-	13,118,184
Total accumulated depreciation	14,605,986	1,249,347	158,686	15,696,647
<b>Net capital assets, being depreciated</b>	8,741,984	(231,127)	1,413	8,509,444
<b>Governmental Activities capital assets, net</b>	<b>\$8,996,392</b>	<b>\$(231,127)</b>	<b>\$ 1,413</b>	<b>\$8,763,852</b>
<b>Business-type Activities</b>				
<b>Capital assets, not being depreciated</b>				
Land	\$ 40,012	\$ -	\$ -	\$ 40,012
Construction in Progress	-	-	-	-
Total capital assets, not being depreciated	40,012	-	-	40,012
<b>Capital assets being depreciated</b>				
Buildings and improvements	163,471	-	-	163,471
Equipment	1,445,947	-	23,463	1,422,484
Plant	20,932,530	-	-	20,932,530
Infrastructure	9,122,884	82,000	-	9,204,884
Total capital assets, being depreciated	31,664,832	82,000	23,463	31,723,369
Less accumulated depreciation for				
Buildings and improvements	35,481	6,145	-	41,626
Equipment	807,150	67,009	23,463	850,696
Plant	2,813,242	705,289	-	3,518,531
Infrastructure	6,364,125	123,122	-	6,487,247
Total accumulated depreciation	10,019,998	901,565	23,463	10,898,100
<b>Net capital assets, being depreciated</b>	21,644,834	(819,565)	-	20,825,269
<b>Business-type Activities capital assets, net</b>	<b>\$21,684,846</b>	<b>\$(819,565)</b>	<b>\$ -</b>	<b>\$20,865,281</b>

# CITY OF MUSKEGON HEIGHTS

## NOTES TO THE FINANCIAL STATEMENTS

**FOR THE YEAR ENDED DECEMBER 31, 2007**

	Balance January 1, <u>2007</u>	<u>Additions</u>	<u>Deletions</u>	Balance December 31, 2007
<b>Downtown Development Authority</b>				
<b>Capital assets, not being depreciated</b>				
Land	\$294,635	\$ -	\$ -	\$294,635
Construction in Progress	-	-	-	-
Total capital assets, not being depreciated	294,635	-	-	294,635
<b>Capital assets being depreciated</b>				
Buildings and improvements	753,835	-	-	753,835
Accumulated depreciation	171,489	21,408	-	192,897
<b>Net capital assets, being depreciated</b>	582,346	(21,408)	-	560,938
<b>Business-type Activities capital assets, net</b>	<b>\$876,981</b>	<b>\$(21,408)</b>	<b>\$ -</b>	<b>\$855,573</b>

Depreciation expense was charged to functions/programs of the primary government as follows:

<b>Governmental Activities</b>	
General government	\$ 31,234
Public safety	87,454
Public works and streets	1,105,672
Culture and recreation	24,987
<b>Total depreciation expense - governmental activities</b>	<b>\$1,249,347</b>
<b>Business-type Activities</b>	
Sewer	\$ 76,837
Water	33,703
Water Treatment	791,025
<b>Total depreciation expense - business- type activities</b>	<b>\$901,565</b>



# CITY OF MUSKEGON HEIGHTS

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED DECEMBER 31, 2007

#### 8. PENSION PLANS

##### Defined Benefit Plan

*Plan Description* - The various bargaining and non-bargaining unit employees of the City participate in the Municipal Employees' Retirement System of Michigan (MERS), an agent multi-employer defined benefit pension plan providing retirement, death and disability benefits. The System is administered by the MERS retirement board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917.

The City is required to contribute at an actuarially determined rate, which for the current year was 0% to 14.41% of annual covered payroll. Participating employees are required to contribute from 3 to 6% percent of gross wages to the Plan. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of employees are established and may be amended by labor agreements.

For the year ended December 31, 2007, the City's annual pension cost of \$338,575 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of eight (8.0) percent; and (b) projected salary increases of four and one-half (4.5) percent per year compounded annually based on inflation, plus from 0 to 8.4% percent based on an age-related scale to reflect merit, longevity and promotional salary increases. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2007, the date of the latest actuarial valuation, was from 26 to 29 years.

##### Three-Year Trend Information

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
12/31/05	\$160,000	100%	-
12/31/06	326,831	100%	-
12/31/07	338,575	100%	-

##### Schedule of Funding Progress

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(a)</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability (AAL)</u> <u>Entry Age</u> <u>(b)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u> <u>(b-a)</u>	<u>Funded</u> <u>Ratio</u> <u>Total</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u> <u>((b-a)/c)</u>
12/31/05	\$29,060,165	\$26,354,905	\$2,705,260	91%	\$3,315,952	82%
12/31/06	26,973,198	29,892,734	2,919,536	90%	3,547,340	82%
12/31/07	27,584,351	30,143,833	2,559,482	92%	3,547,340	72%

# CITY OF MUSKEGON HEIGHTS

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED DECEMBER 31, 2007

#### 9. LONG-TERM DEBT

The following is a summary of the debt transactions of the City for the year ended December 31, 2007:

	<u>Balance January 31, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2007</u>	<u>Due Within One Year</u>
<b>Governmental Activities</b>					
2004 Michigan Municipal Bond Authority, Fiscal Stabilization Bonds, due in varying installments of \$170,000 to \$210,000 through November 2013; plus interest at 2.5% to 4%	\$1,330,000	\$ -	175,000	\$1,155,000	\$175,000
1997C Michigan Municipal Bond Authority, Advanced Refunding of Series 1991C, Group B of 1991 bonds, due in varying installments of \$20,000 to \$75,000 through November 2020; plus interest at 7.2%	625,000	-	25,000	600,000	25,000
Computer equipment installment purchase due in semi-annual installments of \$4,982 including interest at 3.75% through March 2008	14,371	-	9,509	4,862	4,862
Telephone equipment installment purchase due in monthly installments of \$1,014 including interest at 4.25% through April 2008	15,734	-	11,727	4,007	4,104
Equipment installment purchase due in quarterly installments of \$936 including interest at 6.25% through September 2008	6,173	-	3,486	2,687	2,735
Street sweeper installment purchase due in quarterly installments of \$4,673 including interest at 6.94% through March 2009	38,617	-	16,432	22,185	17,603
2006 Police Vehicle purchase due in quarterly installments of \$4,982 including interest at 5.8% through March 2009	56,520	-	21,637	34,883	22,919
2007 Police Vehicle purchase due in quarterly installments of \$5,471 including interest at 6.9% through January 2010	-	59,858	14,614	45,244	19,252

# CITY OF MUSKEGON HEIGHTS

## NOTES TO THE FINANCIAL STATEMENTS

**FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Balance January 31, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2007</u>	<u>Due Within One Year</u>
Mower equipment installment purchase due in monthly installments of \$723 including interest at 5.8% through September 2011	\$ 35,935	\$ -	\$ 6,743	\$ 29,192	\$ 7,151
2007 Michigan Municipal Bond Authority Energy Conservation Installment Purchase due in semi-annual installments of \$32,721 to \$64,784 including interest at 4.7% through November 2, 2022	-	960,348	-	960,348	20,096
2007 Brownfield Redevelopment Grant Project due in monthly installments of \$100,174 through October 20, 2021 plus interest at 2.0%	-	131,670	-	131,670	-
Accrued employee benefits	450,355	63,792	111,741	402,406	209,559
<b>Total Governmental Activities</b>	<b>2,572,705</b>	<b>1,215,668</b>	<b>395,889</b>	<b>3,392,484</b>	<b>508,281</b>
<b>Business-type Activities</b>					
2000 Water Supply System revenue bonds due in annual installments of \$310,000 to \$720,000 through November 2030, plus interest from 5.2% to 6%	1,525,000	-	355,000	1,170,000	370,000
2005 Water Supply System revenue refunding bonds due in annual installments of \$40,000 to \$465,000 through November 2030, plus interest from 3.3% to 4.5%	6,775,000	-	40,000	6,735,000	40,000
2006 Water Supply System revenue refunding bonds due in annual installments of \$40,000 to \$465,000 through November 2030, plus interest from 3.3% to 4.5%	9,585,000	-	45,000	9,540,000	45,000
1996 Muskegon County Wastewater Management System Bond Refunding Contractual Agreement due annually, plus interest at 5.7%.	228,228	-	114,657	113,571	113,571
Accrued employee benefits	47,441	30,661	32,558	45,544	31,372
<b>Total Business-type Activities</b>	<b>18,160,669</b>	<b>30,661</b>	<b>587,215</b>	<b>17,604,115</b>	<b>599,943</b>

# CITY OF MUSKEGON HEIGHTS

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED DECEMBER 31, 2007

	Balance January 31, 2007	Additions	Deletions	Balance December 31, 2007	Due Within One Year
<b>Component Unit</b>					
Downtown Development Authority					
1994 Downtown Development limited tax obligation bonds due in annual installments of \$50,000 to \$125,000 through May; interest at 7% to 7.25%	610,000	-	75,000	535,000	85,000
Mortgage note due in monthly installments of \$2,736 including interest at 7.95% through February 2011	115,884	-	24,342	91,542	26,413
<b>Total Component Unit Activities</b>	<b>725,884</b>	<b>-</b>	<b>99,342</b>	<b>626,542</b>	<b>111,413</b>
<b>Total Long-term Debt - Reporting Entity</b>	<b>\$21,459,258</b>	<b>\$1,246,329</b>	<b>\$1,082,446</b>	<b>\$21,623,141</b>	<b>\$1,220,180</b>

The annual requirements to amortize all debt outstanding (excluding accrued employee benefits) as of December 31, 2007 are as follows:

Year ending December 31	Governmental Activities		Business-type Activities		Component Unit	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 298,722	\$129,577	\$ 568,571	\$ 740,583	\$111,413	\$ 41,959
2009	284,116	118,012	485,000	718,226	128,622	33,132
2010	262,438	107,532	595,000	694,427	131,016	23,538
2011	370,654	97,602	530,000	669,406	130,459	13,650
2012	306,027	86,877	550,000	649,126	125,032	4,532
2013-2017	746,729	278,413	3,140,000	2,761,634	-	-
2018-2022	721,392	89,515	3,825,000	2,181,840	-	-
2023-2027	-	-	4,655,000	1,337,418	-	-
2028-2030	-	-	3,300,000	299,732	-	-
<b>Total</b>	<b>\$2,990,078</b>	<b>\$907,508</b>	<b>\$17,558,571</b>	<b>\$10,052,392</b>	<b>\$626,542</b>	<b>\$116,811</b>

The City pays the County of Muskegon a fixed portion of debt service on the 1996 Muskegon County Wastewater Management System Refunding Bonds under a contractual agreement for which the City has pledged its full faith and credit. The City's portion of the required debt service is reported above in the business type activities outstanding debt. In addition, the City pays the County of Muskegon for operating and debt service costs related to wastewater treatment activities based on the City's flow into the County wastewater treatment system.

During the current and prior years, advance refunding resulted in a defeasance of bonds. As a result, the irrevocable trust escrow account assets and the related liability for the defeased bonds are not included in the City's financial statements. At year end, \$15,190,000 of bonds outstanding are considered defeased.

# **CITY OF MUSKEGON HEIGHTS**

## **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2007**

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### **10. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the government carries commercial insurance. The City also purchases health and other insurance for employees. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

### **11. OTHER POST EMPLOYMENT BENEFITS**

The City provides health care insurance benefits to retired full-time employees in accordance with various labor agreements. Currently there are 84 retirees eligible. The city recognized the cost of the post employment health care benefits when the payments are made. During 2007, the amount expended for post employment benefits was \$535,204.

**COMBINING AND INDIVIDUAL FUND  
STATEMENTS AND SCHEDULES**

## **GENERAL FUND**

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The General Fund is used to account for resources traditionally associated with government that are not required legally or by sound financial management to be accounted for in another fund. Revenues in this fund are derived primarily from general property taxes, income taxes, fees for services, interest, state shared revenues, grants, and other intergovernmental revenues. General operating expenditures of the City are accounted for in this fund.

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# CITY OF MUSKEGON HEIGHTS

## GENERAL FUND SCHEDULE OF EXPENDITURES BUDGET AND ACTUAL

**FOR THE YEAR ENDED DECEMBER 31, 2007**

Expenditures	Budget Amounts		Actual Amount	Variance Positive (Negative)
	Original	Final		
Current				
General government				
City Council	\$ 40,507	\$ 35,000	\$ 34,829	\$ 171
Mayor	15,064	10,000	8,595	1,405
City Manager	155,235	125,000	113,275	11,725
Personnel	22,900	35,000	34,918	82
Elections	13,700	12,700	10,899	1,801
Income Tax	61,124	165,765	163,146	2,619
Assessor	138,418	138,418	136,286	2,132
City Attorney	100,000	117,000	110,109	6,891
City Clerk	75,695	75,695	77,886	(2,191)
Finance	151,770	125,000	118,741	6,259
Treasurer	55,429	55,429	54,588	841
Data Processing	9,000	13,000	12,613	387
Buildings and Grounds	181,649	1,138,997	1,054,343	84,654
Motor Pool	65,000	68,000	70,653	(2,653)
Other general government	810,024	893,024	902,032	(9,008)
	<u>1,895,515</u>	<u>3,008,028</u>	<u>2,902,913</u>	<u>105,115</u>
Public safety				
Police	1,980,034	2,155,000	2,100,426	54,574
Auto theft grant	114,341	117,588	124,015	(6,427)
Fire	1,009,238	1,100,000	1,060,176	39,824
Inspections	252,823	320,000	304,848	15,152
Special investigations	-	-	5,852	(5,852)
	<u>3,356,436</u>	<u>3,692,588</u>	<u>3,595,317</u>	<u>97,271</u>
Public works				
Public works	64,500	69,000	88,135	(19,135)
Street lighting	153,000	170,000	179,577	(9,577)
Traffic	-	2,773	3,010	(237)
Refuse collection	510,000	500,000	485,986	14,014
	<u>727,500</u>	<u>741,773</u>	<u>756,708</u>	<u>(14,935)</u>
Community development				
Farmer's market	3,000	3,800	3,591	209
Planning	20,953	7,000	6,835	165
	<u>23,953</u>	<u>10,800</u>	<u>10,426</u>	<u>374</u>
Culture and recreation				
Parks	143,394	130,000	95,622	34,378
Library	11,187	18,500	17,849	651
Boardwalk	-	-	4,650	(4,650)
Festival in the park	-	3,190	6,105	(2,915)
Mona Lake boat launch	-	-	748	(748)
	<u>154,581</u>	<u>151,690</u>	<u>124,974</u>	<u>26,716</u>
Debt service				
Principal	73,488	64,800	64,230	570
Interest and fiscal charges	2,380	2,380	7,762	(5,382)
	<u>75,868</u>	<u>67,180</u>	<u>71,992</u>	<u>(4,812)</u>
<b>Total expenditures</b>	<u>\$ 6,233,853</u>	<u>\$ 7,672,059</u>	<u>\$ 7,462,330</u>	<u>\$ 209,729</u>



## NON-MAJOR FUNDS

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**Special Revenue Funds** are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

**Major Streets** - This fund is used to account for the revenues received from the State of Michigan under Act 51 (fuel taxes) which are specifically earmarked for construction and maintenance of roads designated as major streets in the City.

**Local Streets** - This fund is used to account for the revenues received from the State of Michigan under Act 51 (fuel taxes) which are specifically earmarked for construction and maintenance of roads designated as local streets in the City.

**Community Development Block Grant** - This fund accounts for the grant funding, program income and participant contributions which are restricted for specific expenditures to meet program objectives established annually.

**Cemetery** - This fund accounts for specific fees for the operation and maintenance of the City cemetery as well as transfers of interest income from the Cemetery Perpetual Care Permanent Fund.

**Recreation** - This fund accounts for fees and subsidies from other funds which are utilized to fund the City recreation programs.

**Cemetery Perpetual Care** - This fund accounts for various cemetery service fees which are restricted in perpetuity. Earnings on these balances must be utilized to operate and maintain the cemetery.

**Brownfield Project** - This fund accounts for captured tax revenue on specific properties within the City that have been identified and approved by the State of Michigan as Brownfields requiring site reclamation. These revenues are used to reimburse property owners for expenditures incurred for Brownfield cleanup.

**Debt Service Funds** are used to account for the accumulation and disbursement of resources to pay principal and interest payments on long-term debt.

**Capital Project Funds** are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

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# CITY OF MUSKEGON HEIGHTS

## NONMAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET

**DECEMBER 31, 2007**

	Special Revenue			
	Major Streets	Local Streets	Community Development Block Grant	Cemetery
<b>Assets</b>				
Cash and pooled investments	\$ 77,928	\$ 55,898	\$ 18,794	\$ 598
Receivables				
Accounts	-	-	-	29,718
Special assessments	170,652	-	-	-
Due from other funds	200,275	390	138,825	5
Due from other governments	<u>92,229</u>	<u>33,780</u>	<u>82,751</u>	<u>-</u>
<b>Total assets</b>	<u>\$ 541,084</u>	<u>\$ 90,068</u>	<u>\$ 240,370</u>	<u>\$ 30,321</u>
<b>Liabilities and fund balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 23,611	\$ 4,093	\$ 76,034	\$ 7,286
Accrued liabilities	3,562	5,337	3,845	1,787
Due to other funds	95,560	75,753	139,474	124,279
Deferred revenue	<u>170,652</u>	<u>-</u>	<u>21,017</u>	<u>-</u>
<b>Total liabilities</b>	<u>293,385</u>	<u>85,183</u>	<u>240,370</u>	<u>133,352</u>
<b>Fund balances</b>				
Unreserved				
Undesignated	<u>247,699</u>	<u>4,885</u>	<u>-</u>	<u>(103,031)</u>
<b>Total fund balances (deficit)</b>	<u>247,699</u>	<u>4,885</u>	<u>-</u>	<u>(103,031)</u>
<b>Total liabilities and fund balances</b>	<u>\$ 541,084</u>	<u>\$ 90,068</u>	<u>\$ 240,370</u>	<u>\$ 30,321</u>

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<u>Recreation</u>	<u>Cemetery Perpetual Care</u>	<u>Brownfield Project</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>
\$ 3,570	\$ 510,542	\$ 82,628	\$ 42,948	\$ 1,289	\$ 794,195
-	3,821	-	-	-	33,539
-	-	-	-	-	170,652
16,216	10,311	-	-	3,057	369,079
-	-	-	-	-	208,760
<u>\$ 19,786</u>	<u>\$ 524,674</u>	<u>\$ 82,628</u>	<u>\$ 42,948</u>	<u>\$ 4,346</u>	<u>\$ 1,576,225</u>
\$ 8,017	\$ -	\$ 35,444	\$ 15,072	\$ -	\$ 169,557
6,483	-	-	-	-	21,014
47,594	-	23,635	6,300	-	512,595
-	-	-	-	-	191,669
<u>62,094</u>	<u>-</u>	<u>59,079</u>	<u>21,372</u>	<u>-</u>	<u>894,835</u>
<u>(42,308)</u>	<u>524,674</u>	<u>23,549</u>	<u>21,576</u>	<u>4,346</u>	<u>681,390</u>
<u>(42,308)</u>	<u>524,674</u>	<u>23,549</u>	<u>21,576</u>	<u>4,346</u>	<u>681,390</u>
<u>\$ 19,786</u>	<u>\$ 524,674</u>	<u>\$ 82,628</u>	<u>\$ 42,948</u>	<u>\$ 4,346</u>	<u>\$ 1,576,225</u>

**CITY OF MUSKEGON HEIGHTS**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**

**FOR THE YEAR ENDED DECEMBER 31, 2007**

	Special Revenue			
	Major Streets	Local Streets	Community Development Block Grant	Cemetery
<b>Revenues</b>				
Intergovernmental revenues				
Federal	\$ -	\$ -	\$ 465,851	\$ -
State	608,629	222,895	10,519	-
Charges for services	-	-	-	146,327
Fines	-	-	-	-
Interest earnings	1,617	116	1	965
Miscellaneous	33,662	651	24,147	260
<b>Total revenues</b>	<b>643,908</b>	<b>223,662</b>	<b>500,518</b>	<b>147,552</b>
<b>Expenditures</b>				
Current				
General government	-	-	-	210,336
Public works and streets	516,695	336,457	-	-
Community development	-	-	485,518	-
Culture and recreation	-	-	-	-
Debt Service				
Principal	16,432	-	-	3,486
Interest	2,259	-	-	258
<b>Total expenditures</b>	<b>535,386</b>	<b>336,457</b>	<b>485,518</b>	<b>214,080</b>
Revenues over (under) expenditures	108,522	(112,795)	15,000	(66,528)
Other financing sources (uses)				
Issuance of loans	-	-	-	-
Transfers in	-	-	-	19,471
Transfers out	-	(22,625)	(15,000)	-
Total other financing sources (uses)	-	(22,625)	(15,000)	19,471
Net changes in fund balances	108,522	(135,420)	-	(47,057)
<b>Fund balances (deficit), beginning of year, as restated</b>	<b>139,177</b>	<b>140,305</b>	<b>-</b>	<b>(55,974)</b>
<b>Fund balances (deficit), end of year</b>	<b>\$ 247,699</b>	<b>\$ 4,885</b>	<b>\$ -</b>	<b>\$ (103,031)</b>

<u>Recreation</u>	<u>Cemetery Perpetual Care</u>	<u>Brownfield Project</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 465,851
-	-	-	38,163	-	880,206
22,205	8,171	-	-	-	176,703
-	-	-	-	-	-
-	8,649	-	4	7	11,359
<u>669</u>	<u>-</u>	<u>-</u>	<u>16,870</u>	<u>-</u>	<u>76,259</u>
<u>22,874</u>	<u>16,820</u>	<u>-</u>	<u>55,037</u>	<u>7</u>	<u>1,610,378</u>
-	15	-	17,370	-	227,721
-	-	-	-	-	853,152
-	-	97,150	-	-	582,668
119,665	-	-	-	-	119,665
-	-	-	-	200,000	219,918
-	-	-	-	<u>83,030</u>	<u>85,547</u>
<u>119,665</u>	<u>15</u>	<u>97,150</u>	<u>17,370</u>	<u>283,030</u>	<u>2,088,671</u>
<u>(96,791)</u>	<u>16,805</u>	<u>(97,150)</u>	<u>37,667</u>	<u>(283,023)</u>	<u>(478,293)</u>
-	-	120,699	-	-	120,699
58,091	-	-	-	283,030	360,592
-	<u>(9,471)</u>	<u>-</u>	<u>(38,163)</u>	<u>-</u>	<u>(85,259)</u>
<u>58,091</u>	<u>(9,471)</u>	<u>120,699</u>	<u>(38,163)</u>	<u>283,030</u>	<u>396,032</u>
(38,700)	7,334	23,549	(496)	7	(82,261)
<u>(3,608)</u>	<u>517,340</u>	<u>-</u>	<u>22,072</u>	<u>4,339</u>	<u>763,651</u>
<u>\$ (42,308)</u>	<u>\$ 524,674</u>	<u>\$ 23,549</u>	<u>\$ 21,576</u>	<u>\$ 4,346</u>	<u>\$ 681,390</u>





# CITY OF MUSKEGON HEIGHTS

## AGENCY FUNDS COMBINING STATEMENT OF ASSETS AND LIABILITIES

DECEMBER 31, 2007

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	<u>Tax Collection</u>	<u>Imprest Payroll</u>	<u>Woodcliffe Village</u>	<u>Total</u>
<b>Assets</b>				
Cash and pooled investments	\$ 379,132	\$ 112,273	\$ -	\$ 491,405
Due from other funds	47,952	275,137	-	323,089
Due from other governments	-	2,173	-	2,173
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total assets</b>	<u>\$ 427,084</u>	<u>\$ 389,583</u>	<u>\$ -</u>	<u>\$ 816,667</u>
<b>Liabilities</b>				
Accounts payable	\$ 35,940	\$ 142,944	\$ -	\$ 178,884
Due to other funds	3,434	200,000	-	203,434
Due to other governments	387,710	46,639	-	434,349
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total liabilities</b>	<u>\$ 427,084</u>	<u>\$ 389,583</u>	<u>\$ -</u>	<u>\$ 816,667</u>

# CITY OF MUSKEGON HEIGHTS

## DOWNTOWN DEVELOPMENT AUTHORITY COMBINING BALANCE SHEET/STATEMENT OF NET ASSETS

DECEMBER 31, 2007

	Governmental Fund Types			Adjustments	Statement of Net Assets
	General Fund	Debt Service Fund	Totals		
<b>Assets</b>					
Cash and pooled investments	\$ 325,206	\$ -	\$ 325,206	\$ -	\$ 325,206
Property taxes receivable	85,716	-	85,716	-	85,716
Due from other funds	-	4,955	4,955	(4,955)	-
Due from other governments	12,985	-	12,985	-	12,985
Capital assets					
Land	-	-	-	294,635	294,635
Buildings	-	-	-	753,835	753,835
Accumulated depreciation	-	-	-	(192,897)	(192,897)
<b>Total assets</b>	<b>\$ 423,907</b>	<b>\$ 4,955</b>	<b>\$ 428,862</b>	<b>850,618</b>	<b>1,279,480</b>
<b>Liabilities and fund balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 61,758	\$ -	\$ 61,758	\$ -	61,758
Accrued liabilities	1,449	-	1,449	6,427	7,876
Deferred revenue	174,494	-	174,494	-	174,494
Due to other funds	4,955	-	4,955	(4,955)	-
Due to other governments	2,173	4,955	7,128	-	7,128
Noncurrent liabilities					
Due within one year	-	-	-	111,413	111,413
Due in more than one year	-	-	-	515,129	515,129
<b>Total liabilities</b>	<b>244,829</b>	<b>4,955</b>	<b>249,784</b>	<b>628,014</b>	<b>877,798</b>
<b>Fund balances</b>					
Unreserved					
Undesignated	179,078	-	179,078		
<b>Total liabilities and fund balances</b>	<b>\$ 423,907</b>	<b>\$ 4,955</b>	<b>\$ 428,862</b>		
<b>Net assets</b>					
Unrestricted					<b>\$ 401,682</b>

# CITY OF MUSKEGON HEIGHTS

## DOWNTOWN DEVELOPMENT AUTHORITY COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES

**FOR THE YEAR ENDED DECEMBER 31, 2007**

	Governmental Fund Types			Adjustments	Statement of Net Assets
	General Fund	Debt Service Fund	Totals		
<b>Revenues</b>					
Property taxes	\$ 355,820	\$ -	\$ 355,820	\$ -	\$ 355,820
Charges	56,310	-	56,310	-	56,310
Interest earnings	8,749	-	8,749	-	8,749
Miscellaneous	3,324	-	3,324	-	3,324
	<u>424,203</u>	<u>-</u>	<u>424,203</u>	<u>-</u>	<u>424,203</u>
<b>Expenditures</b>					
Current					
General government	261,372	-	261,372	21,408	282,780
Debt Service					
Principal	24,342	75,000	99,342	(99,342)	-
Interest	8,488	41,898	50,386	(887)	49,499
	<u>294,202</u>	<u>116,898</u>	<u>411,100</u>	<u>(78,821)</u>	<u>332,279</u>
Revenues over (under) expenditures	<u>130,001</u>	<u>(116,898)</u>	<u>13,103</u>	<u>78,821</u>	<u>91,924</u>
Other financing sources (uses)					
Transfers in	-	116,897	116,897	-	116,897
Transfers out	(116,897)	-	(116,897)	-	(116,897)
Total other financing sources (uses)	<u>(116,897)</u>	<u>116,897</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balances	13,104	(1)	13,103	(13,103)	
Change in net assets				91,924	91,924
Fund balances/net assets, beginning of year	<u>165,974</u>	<u>1</u>	<u>165,975</u>	<u>143,783</u>	<u>309,758</u>
Fund balances/net assets, end of year	<u>\$ 179,078</u>	<u>\$ -</u>	<u>\$ 179,078</u>	<u>\$ 222,604</u>	<u>\$ 401,682</u>





## *Vredeveld Haefner LLC*

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January 29, 2009

Honorable Mayor and Members of the City Council  
City of Muskegon Heights, Michigan

In planning and performing our audit of the financial statements of the City of Muskegon Heights (the "City") for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified deficiencies in internal control that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the entity's financial statements will not be prevented or detected by the entity's internal control. We believe the following deficiencies constitute material weaknesses.

2007-1: The City does not have procedures in place to prepare financial statements in accordance with U.S. generally accepted accounting principles including procedures to present required financial statement disclosures.

2007-2: The City does not have a process in place to periodically reconcile all general ledger asset and liability account balances to supporting information.

2007-3: The City does not have a process in place to prepare bank and investment account reconciliations in a timely manner.

This report is intended solely for the information and use of the Board and Management of the City of Muskegon Heights, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*Vredeveld Haefner LLC*